

3 action points towards a dignified life for every person

CIDSE recommendations to the G20 Summit – Seoul, 11-12 November 2010

The world continues to be in the throes of an economic crisis. All economies have not been equally impacted by the crisis. But, in combination with the food and energy crises and grappling with climate change, poor and vulnerable groups in almost all economies were dramatically affected by it, even though they had little to do with its causes.

The crisis originated in the economies of a few countries, all of whom are represented in the G20. By coming together to discuss action to tackle the crisis in London and Pittsburgh in 2009, and in Toronto and Seoul in 2010, the G20's willingness to assume responsible leadership in tackling the crisis is welcome. Its decision to dedicate a working group to consider development issues is significant in this regard.

CIDSE believes that at times of instability, the fate of the most vulnerable becomes the indicator of our common humanity. Moreover, it is in our common interest to secure global development that is inclusive and sustainable. The alternative would be a divided world with increasing social conflict, higher rates of corruption and crime, a greater prevalence of disease and lower life expectancy, discrimination in labour markets and greater polarisation of political interests in society.

Balanced and resilient growth is an important but not the only objective of inclusive and sustainable development. The ultimate objective must be securing a dignified life for every person, with particular attention for the most vulnerable. This requires a **three-pronged development strategy**:

- **A focus on the needs of small farmers and micro-businesses** owned by poor women and men when deciding policy choices and spending priorities
- **Regulation of foreign direct investment** and multinationals operating in developing countries so that they contribute to and do not undermine inclusive and sustainable development
- Implement policies and mechanisms that support global economic stability and are **conducive to the trade, finance and investment prospects of developing countries.**

What should the G20 do:

1. Attend to the needs of the small scale sector within its development agenda

Developing countries that were hard hit by the crisis were those that had a limited export base and limited trading partners. Those developing countries that fared well were those that had good domestic and regional demand, rather than an over-reliance on exports. Investing in small-scale sectors can help diversify and strengthen economies, not only by broadening the basket of goods and services that

contribute to the country's economic wealth, but also by boosting local and regional markets. With poor women and men being predominantly engaged in these sectors, investing in them will also reduce poverty more efficiently.

The needs of small actors in the economy require different strategies than those that currently dominate economic policy planning. The G20 would for instance need to move away from such models as the World Bank's investment climate template, the 'Doing Business' indicators towards models that uphold investing in poor men and women, including their labour as the main asset in the production process.

Investing in people and small-scale economic activities is an important complementary strategy to making boosting foreign investment, trade and even industrial policy work for development. For example, the main ways local businesses benefit from the presence of foreign investors is through linkages usually as suppliers and through learning by interaction with them. In order for this to happen, local businesses need to be given the space and means to sufficiently develop to act as suppliers and not be too far away in their own capacities to be able to adopt new practices and learning. Without these effects, boosting exports or promoting foreign investment can bring limited benefits, even enclave development.

Different approaches to investment spending will also be needed. For example, the G20 focus on infrastructure should not only focus on large-scale and export infrastructure. Building rural roads to enable farmers to reach local markets is equally part of a pro-poor economic development agenda.

2. Regulate foreign direct investment and transnational companies in developing countries

Transnational corporations (TNCs) have long been seen as an important part of the picture for economic development in poor countries. They can boost growth, create jobs, provide tax revenue, bring in new capital and new ideas. However, in the absence of regulation, the contribution of foreign investment and the private sector to development is not always or automatically positive. TNCs often shop around for the most lucrative investment climate with little consideration of the tax-competition between tax jurisdictions that this causes. Many develop complex transfer pricing strategies, transferring profits to subsidiaries in more favourable tax jurisdictions to evade taxes. In the extractive sector in particular, many lucrative contracts are sealed by buying up local elites. Most trans-national companies do not disclose details of their operations on a country basis, leaving local communities and tax authorities with little information to assess the impact of the companies on their economies.

As the home states of the majority of the world's TNCs, the G20 has a key role to play to regulate foreign investment and transnational companies. The G20 has expressed the need to tackle regulation as a response to the financial crisis. However, we still need to see concrete policy change. Immediate steps that the G20 can take in this direction are to:

- Instruct the International Accounting Standards Board (IASB) to revise the International Financial Regulation Standard 8, for segment reporting, to mandate country-by-country reporting by all multinational companies.
- Urge the IASB to include mandatory country-by-country reporting within International Financial Reporting Standard (IFRS) 6 for extractive industries, as part of its current review.
- Express support for the inclusion of a country-by-country reporting standard within the OECD Guidelines for Multinational Enterprises, currently being updated, and in the OECD Principles of Corporate Governance.

3. Support an international policy framework that tackles systemic weaknesses in the global economy and contributes to development

As well as supporting economic development in poor countries directly, G20 countries also need to ensure that the policies and mechanisms they put in place contribute to a stable global economy and are conducive to the trade, finance and investment prospects of low-income countries.

We welcome the commitment made in Toronto to ensure that the G20's own framework for recovery is coherent with the interest of low-income countries.

Much still remains to be done to fulfil this commitment:

1) Adopt a global Financial Transactions Taxes (FTTs).

FTTs would contribute to greater stability in the international financial system by increasing the cost of speculative trading and thus helping mitigate fluctuations of asset prices in stock markets, of exchange rates and commodity prices. At the same time it would have a minimal effect on the real economy as the tax would be limited to transactions between financial market actors while transactions between customers and financial institutions, for example the purchase of goods, labour market transfers and so on, would be exempt. The revenues, depending on the design and the tax base estimating to range from 25 million euros (if a limited Currency Transaction Development Levy is put in place) at the lower extreme to 1 trillion at the higher extreme (if all financial transactions are covered at a tax rate of 0.5%), would provide urgently needed finance for financing global public goods such as poverty eradication and combating climate change. The feasibility of the tax has been recognised by the IMF and the European Commission. In its most recent resolution supporting a FTT, the European Parliament has called for the adoption of a EU-wide FTT as a first step to a global FTT.

1) End Tax Havens

The G20 has rightfully prioritised action against tax havens as a priority in the effort to overcome the economic crisis. Yet, the urgency of the task is not matched by the pace of reform which they still need to take including:

- Conducting public consultations within the peer review process with adequate scope for participation by all stakeholders, as part of the reviews.
- Enforcing public records of the beneficial ownership of all companies, trusts, foundations, charities in all jurisdictions through the FATF and the Peer Review Process with strong and coordinated counter-measures against non-compliant jurisdictions.
- Adopting strong and unified legal definitions of tax evasion and sanctioning tax evaders and those designing elaborate tax evasion schemes.
- Signing up to a multilateral tax information exchange convention, such as the Council of Europe-OECD Convention on Mutual Assistance in Tax Matters, and using their leverage to get their dependencies and secrecy jurisdictions to join.
- Setting a timetable for the establishment of technical standards to facilitate comprehensive automatic exchange of information by competent bodies such as the OECD and the UN Committee of Tax Experts with a view to their incorporation in the abovementioned Convention.

1 Create an international debt-workout mechanism

Civil society has long pointed out that existing frameworks for debt restructuring lead to systematically suboptimal outcomes and undershoot the required levels of debt reduction. Yet it took a debt crisis on their doorstep for the industrialised world to recognise the need for a structured and fair debt workout mechanism for countries in severe financial crisis. The Greek crisis has demonstrated once again that it is finally vulnerable groups- in which women are overrepresented- who suffer the impacts of anti-crisis measures the worst. This has been a reality for developing countries for decades.

Additionally we are concerned that current proposals for a Global Financial Safety Net may pave the way for high volumes of lending in crises times. Without binding mechanisms to ensure private sector lenders also share the burden, such “safety net” may become a safety net for private lenders, fostering their moral hazard.

Relevant agencies with expertise (UNCTAD, IFIs, civil society etc) need to develop a binding, independent and predictable framework for arbitrating on sovereign debt claims alongside standards for responsible lending and borrowing which should be speedily adopted. Such a framework would help to reverse the adverse impacts of a sovereign debt crisis on vulnerable groups and would fill the current vacuum in global sovereign debt governance.

1 Reform the governance of the Bretton Woods Institutions

We welcome the recent agreement by G20 Finance Ministers to give greater representation to emerging market/ developing countries at the Executive Board, which will help redress some of the governance imbalances that have hampered the effectiveness and legitimacy of the International Monetary Fund.

But we note with concern that previous agreements to reform governance of the Bretton Woods Institutions are not being honored. In particular, we are concerned that even after over two years the limited changes in voting power agreed in 2008 have not been ratified by the full membership and the review of the quota formula will not happen before the quota is used again. The recent agreement to transfer 6 percent of voting power maintains the ambiguity of referring to both “dynamic EMDCs” and “underrepresented” countries as the beneficiaries. There is a risk that the commitment, therefore, might be partially met via a transfer of votes to developed countries deemed “underrepresented” operating on the basis of a quota formula that is clearly biased in their favor.

The current formula to determine voting rights in the IMF and World Bank must be overhauled to include a consideration of ‘demand-oriented’ variables that may favour developing countries as against ‘supply-oriented’ ones. This should be done on the basis of a previous political commitment to ramp up the vote of EMDCs up to achieve parity with that of developed countries. The double-majority requirement should be mainstreamed for policy decision-making in the IMF and World Bank.

1 Create a monetary system supportive of trade and development

The persistence of continued global imbalances and the strains in the Eurozone in an environment of free capital mobility continue to feed high levels of exchange rate volatility. There is an urgent need to provide for an orderly transition towards an international monetary system that supports stability and trade. If implemented in the right way, reforms of the monetary system could also generate extra development and climate finance and support full employment worldwide. The G20 Summit should call for reforms of the international monetary system in which Special Drawing Rights, in a revamped form become its cornerstone.

1 Create a financial regulatory framework conducive to development

The global financial crisis has exposed critical fault lines in the system. Measures currently being discussed to reorient the financial sector to provide credit for productive and socially-useful activities are either delayed or will be too light to modify business as usual. To create a climate conducive to development, further action will be needed including:

- A framework for cooperation on international banking supervision that replace the current market-based incentives for risk managements and which provides greater space for local authorities' intervention in light of, inter alia, their assessments of systemic risks, and the need for countercyclical regulation of capital.
- National governments regulating and monitoring credit rating agencies operating in their jurisdictions. Legal incentives to rely on credit rating agencies should be removed from law, unless guaranteed by stepped up supervision by the government issuing such law.
- Regulating commodity markets to prevent the kind of speculation that leads to severe swings in the value of commodities and directly impacts the food security of food import-dependent developing countries. Previously unregulated *Over the Counter* derivative trading should be carried out in public exchanges and speculative position limits (total number and value of contracts for a given commodity) should be established and apply equally to all investors.



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